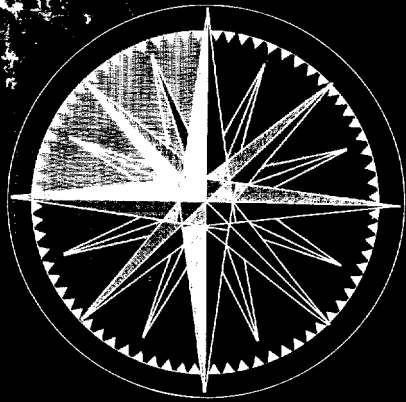


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# **SPECIAL REPORT**

**OFFICE OF CURRENT INTELLIGENCE**

**BLOC ECONOMIC SUPPORT FOR CUBA**

**CENTRAL INTELLIGENCE AGENCY**

MORI/CDF Pages 1-8

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**BLOC ECONOMIC SUPPORT FOR CUBA**

The bloc's drive to support the Cuban economy has entered its fourth year, with aid expenditures so far directed primarily to cushioning the island's economic decline. The slow but steady progress being made in long-term development plans, however, as well as the efforts to relieve Cuba's more immediate problems, underscores the USSR's willingness to assume whatever economic burden is necessary to ensure the survival of a Communist Cuba. Moscow clearly sees the development of a viable Cuban economy as a long-term goal, but it probably expects only limited success in the next few years.

**Magnitude of Bloc Support**

Communist economic support for Cuba is not confined to the conventional development credits which have formed the backbone of bloc assistance to other underdeveloped countries. Nearly \$500 million in such credits have been extended to Cuba, but development projects are slow to implement and contribute little to the solution of immediate economic problems. These credits may be decisive for Cuba's economic future, but bloc willingness to supply about 85 percent of Cuban import needs, even though the island's export capabilities have been curtailed, is of greater immediate importance.

The Cuban program apparently does not involve an excessive drain on bloc resources, but it looms large in terms of total bloc economic aid expenditures abroad. Last year total drawings on bloc economic aid credits to non-Communist countries--largely for equipment and technical assistance--amounted to about \$375 million. The cost

of bloc economic support to Cuba during this same period is estimated to have been almost as high--\$340 million. This consisted of about \$225 million for Cuba's 1962 trade deficit, financed largely by balance-of-payments credits; some \$15 million in technical assistance, financed from long-term development credits; and about \$100 million in sugar premiums--the amount paid by the bloc over the prevailing market price for sugar.

Cuba involves other "costs" impossible to measure in dollar terms. In its aid programs elsewhere, the USSR usually is able to tailor its commitments to long-term Soviet economic plans and thus minimize the burden of foreign aid. In the case of Cuba, however, many shipments of foodstuffs, consumer goods, raw materials, and equipment have been made in response to urgent Cuban requirements, often when these items are scarce within the bloc.

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Trade between the Communist bloc and Cuba in 1962 topped \$1 billion for the second year in a row, but Cuba's deficit leaped from \$40 million in 1961 to more than \$225 million. The Soviet-Cuban trade pact signed last February after extended discussions apparently included the essential elements required by Havana: a deferral of previous trade debts and Soviet agreement to finance another Cuban deficit in 1963. Cuba will repay these debts at 2-percent interest over a 12-year period, probably beginning in 1965 or later. Havana's total trade debt to the USSR probably now stands at about \$300 million.

A similar agreement with Communist China deferred payment of a 1962 deficit, allows another deficit in 1963, and spreads repayments over a 10-year period with no interest charges. At least some of the European satellites granted Cuba additional balance-of-payments relief this year and deferred payment of trade debts incurred in 1962. The agreement with Czechoslovakia, for instance, appears to include a planned Cuban deficit in 1963 of about \$20 million.

From the Cuban viewpoint, these negotiations probably resulted in maintenance of the island's minimum import requirements, but the difficulties this involved sharpened the regime's awareness of its almost complete dependence on the bloc.

The bloc's initial refusal to revise its original sugar

agreements was a particularly unsettling factor in Cuba's relations with the bloc during the past six months. In 1961 the bloc had agreed to take nearly 5 million tons of Cuban sugar annually and to pay 4 cents a pound for the entire amount--more than a cent higher than the price prevailing at that time. The USSR was to take 3 million tons and China 1.2 million tons, with the balance going to the European satellites and North Korea. Because of shortfalls in the Cuban crop, only 3.6 million tons were actually delivered to the bloc last year.

This year, world sugar prices have been spurred upward by a tight supply situation. The price recently has soared to near 14 cents a pound--more than triple the so-called "premium" price the bloc was paying. Cuban sugar production has fallen to about 4 million tons, and Havana had already sold about one million tons of this to the free world prior to the price rise. The remainder of the crop has been committed to the bloc.

Adherence to the old price agreement plunged Havana deeper in debt to the bloc and doubtless angered the Cubans. Relations with the USSR already were embittered by the missile crisis, and the regime had been flirting openly with the Chinese Communists. Moscow's attitude earlier this year presumably reflected a desire to keep Cuba as economically dependent as possible.

The sugar issue was eased somewhat during Castro's recent

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visit to the USSR when it was announced that Moscow now will pay a price for Cuban sugar "in line" with the world market. After Castro's return to Cuba he stated the Soviet price will be set at 6 cents a pound--higher than before, but still less than current market prices. Coupled with similar adjustments in the political sphere, this agreement should promote better Soviet-Cuban economic relations without, however, increasing the actual cost of Soviet support. The Cuban trade debt will be held down and the need for massive Soviet balance-of-payments support reduced. On the other hand, continued sale of the bulk of Cuban sugar to the bloc deprives Havana of flexibility in its foreign trade and reduces the likelihood--however remote--of any Cuban attempt to find an alternative to Soviet assistance.

Project Assistance

In the field of development aid, the Soviet bloc is pushing ahead with projects which in a few years' time should have a significant impact on the island's economy. The bloc program in Cuba is a comprehensive, long-term effort which differs markedly from similar programs in non-Communist countries, largely because it has specific development goals. Three years ago the aid program was conceived largely by Cuba's inexperienced planners, but now it reveals authors who recognize that rational administration is more important than revolutionary zeal.

The USSR has stated it will construct 16 major industrial

enterprises in Cuba. Shipments of equipment for the first of these have been arriving steadily since mid-1962.

To relieve the chronic electric power shortages now plaguing the island, the USSR and Czechoslovakia are engaged in efforts to expand Cuba's power capacity. Two major thermal power plants are under construction with Soviet aid--one in the west at Mariel (200,000 kw.) and the other in the east adjacent to Santiago (100,000 kw.). Scheduled for completion in 1965-66, these two plants will increase Cuba's electric power capacity by about 30 percent. They will cost about \$57 million, of which Soviet aid will cover about \$42 million. Both plants should be in limited operation next year and generating at full capacity by 1965. They are designed for future expansion to 500,000 kw. each.

The USSR also is designing a 300,000-kw. power plant to be built in Oriente Province in connection with plans to expand the Cuban nickel industry, but this is unlikely to be completed for several years. Six smaller power plants are to be set up by Czechoslovakia. Work is under way to expand three Cuban iron and steel plants with Soviet aid, and most of the equipment is scheduled to arrive this year.

Of immediate importance in meeting Cuba's needs for spare parts and maintenance are several small Soviet projects, including a machine shop in Santa Clara for fabricating industrial spare parts and a motor vehicle repair plant in Havana.

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Several agreements were concluded with the USSR to shore up Cuba's agriculture and help expand the country's food supply. Last September an agreement was signed for some \$12 million in Soviet aid for the development of the Cuban fishing industry. Port facilities for both Soviet and Cuban fishing trawlers are to be completed in Havana harbor next year. Some 120 Cubans now are in the USSR to study the fishing industry. The goal of this program is not only to supply fish for the domestic market but to make Cuba an exporter of fish. A growing number of Soviet fishing trawlers and support ships--now estimated at about 20--are operating in Caribbean waters, as the agreement is designed to facilitate Soviet as well as Cuban fishing operations. Some of the trawlers are manned by mixed Soviet-Cuban crews and ultimately will be turned over to Cuba.

In January 1963 a program of Soviet aid for irrigation and land reclamation in Cuba was announced. The USSR is providing a \$15-million credit for financing the cost of equipment and technical aid by some 100 Soviet experts; some of the work is to be carried out this year. The program--termed the General Hydraulics Plan--includes construction of small dams, drainage of swamps, including the huge Zapata marshes near the Bay of Pigs, and similar measures designed to broaden the island's agricultural base.

For longer range agricultural development an agreement was

concluded in May 1962 for the USSR to build two major chemical fertilizer plants in Cuba. There is no evidence, however, that construction has begun on either plant, and completion is likely to require several years.

A large new steel mill producing more than one million tons a year eventually is to be built with Soviet aid. Soviet plans to build an oil refinery with a capacity of two million tons a year now appear to be deferred, presumably because most of the current demand for petroleum products in Cuba can be met from the three refineries already there. The USSR also is committed to a \$100-million program of expanding Cuba's nickel industry, but little progress is apparent so far.

European satellite aid programs generally involve construction of small plants to produce light industrial products such as tools, light bulbs, pencils, electrical fixtures, glassware, and other items which now must be imported. Plans for more elaborate undertakings, such as shipyards, foundries, and the like move more slowly, and most of these remain projects for the indefinite future.

Czechoslovakia is working on a household appliance plant, a motor vehicle assembly plant, and factories to produce tableware and spark plugs.

East Germany announced last year that it will build 26 "factories" in Cuba by the end of 1965, worth some \$30 million. These include a "giant" textile

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combine valued at more than \$15 million, a fish-processing plant, and a variety of light industrial plants. Several of the smaller plants have been completed or are nearing completion.

Despite acrimonious trade negotiations with Havana, Poland is proceeding with its aid projects in Cuba. These include a steel foundry, a tool plant, a radio and television assembly factory, grain silos, and ship repair facilities. More than 30 Polish technicians arrived in Cuba in April for project work, including specialists to teach in connection with two shipyards to be built with Polish help.

Communist China, which in 1960 extended a \$60-million credit to Cuba for industrial development, has done little to implement the agreement. Construction of nine chemical plants with Chinese aid has been announced, with delivery promised by 1966, but fulfillment on time is highly unlikely. Chinese groups concerned with light industry have visited Cuba from time to time, but there is little evidence of equipment being sent in fulfillment of the aid agreement.

#### Technical Assistance

Provision of technicians and workers to supplement Cuba's meager supply of technically trained personnel is one of the most important features of bloc economic aid to Cuba. Most expenditures under long-term credit agreements, in fact, have

gone toward financing technical assistance. An estimated 2,500 bloc personnel are working full time in Cuba in various economic capacities, ranging from teaching economics in Cuban universities to farm laborers. There has been no appreciable change in the number of bloc personnel in Cuba in recent months, but the number will grow this year as work progresses on aid projects.

Soviet and satellite advisers are employed in many positions throughout the Cuban economic hierarchy in planning, administrative, and supervisory roles. A group of Chinese Communist "industrial technicians" arrived in Havana recently to work in the Ministry of Industry. Hundreds of Soviet agricultural laborers have worked in Cuba from time to time. Soviet crews and instructors accompanied the Soviet fishing trawlers which were sent to assist in development of the Cuban fishing industry. A team of nearly 200 Soviet geologists has been employed in Cuba for more than a year making a comprehensive survey of the island's mineral resources.

The campaign Cuba initiated earlier this year to recruit Western technicians and skilled labor probably was designed to supplement rather than replace bloc aid in this field, and it may have been abandoned.

For the longer run, efforts are being made to fill the technological gap by training young Cubans. In addition to the technical schools and training

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centers being set up under bloc auspices in Cuba, thousands of Cubans are receiving training in the bloc. According to press reports, some 2,000 Cubans are studying at Soviet higher education institutions and technical colleges. At a less advanced level, Cubans are working in Soviet factories and last year more than 1,000 Cuban farm youths were sent for a year of training in Soviet farming techniques and the operation of agricultural machinery. Similar programs exist in most of the European satellites.

#### Outlook

With some three years' experience, the USSR and Cuba have developed a workable economic relationship. Cuba is far from an integrated member of the bloc's economic community, but Havana's requirements have become an important factor in Soviet and satellite planning. Cuba has been attending meetings of the bloc's Council for Mutual Economic Assistance (CEMA) in an observer status similar to that enjoyed at various times by other Communist countries. It is unlikely, however, that Cuba will be accorded full CEMA membership in the near future, as CEMA is designed primarily to coordinate the economies of Eastern Europe.

Problems arising from Cuba's mounting debt to the bloc, particularly the USSR, could become a source of friction at any time. Moscow, however, can manipulate this issue as it

sees fit and the decision is likely to be based largely on noneconomic considerations. As long as the Castro regime enjoys the favor of the USSR, it is unlikely that debts will be a serious obstacle to good relations.

The Soviets probably view much of their assistance to Cuba as temporary and have stressed that the island must become self-sufficient in foodstuffs and most consumer goods. Toward this end, Moscow has urged Cuba to adopt more effective organizational policies and to find solutions to immediate problems before proceeding with more elaborate development schemes. The level of Soviet aid may well be contingent on the adoption of such policies by the Cuban regime.

Spurred by bloc assistance and favored by a good balance between resources and population, the Cuban economy should show some improvement by 1965. For the longer run the prospects will depend less on bloc support than on Cuba's ability to administer a planned economy and to advance the population's technical and managerial skills. While Moscow may have postponed any "showplace" plans for Cuba, the efforts being put into long-term economic development indicate the Soviets are hopeful that economic recovery will be followed by further growth and that in a few years economic conditions in Cuba will compare favorably with those in most other Latin American countries. (SECRET NO FOREIGN DISSEM)

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